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SECTION 1

Introduction to Risk Management

1. Definition of Risk Management: Protecting assets from accidental loss through identifying and analyzing exposures to loss, controlling the exposures, and then planning for financing losses with internal or external funds.
2. Types of Risk
 - a. Pure – chance of loss only
 - b. Speculative – chance of loss or gain
 - c. Gambling – chance of loss or gain, with odds in favor of a loss
3. Classes of Risk
 - a. Economic – risks arising from financial based circumstances
 - b. Legal – risks arising out of law, civil actions or regulation
 - c. Political – risks associated with changes within government
 - d. Social – risks related to meeting the expectations of the general public
 - e. Physical – risks to your property and human resources
 - f. Juridical – risk associated with the decisions of judges or juries

4. Glossary of Risk Terms

Accident – an unplanned incident that results in injury to person or damage to property.

Claim – a demand made by a person injured or damaged in an accident.

Expected Losses – a projection of losses based on statistical analysis.

Exposure – a circumstance or set of circumstances which might lead to a loss.

Frequency – the number of times an incident can or does occur.

Hazard – a condition that may lead to an incident.

Incident – an unintended event that differs from normal or planned operations.

Loss – a reduction in value.

Occurrence – an accident that is not limited by time.

Peril – an event that may lead to a loss.

Severity – the measure of an impact of a loss (usually monetary)

5. Organizational Culture's affect on Risk Management

- a. High or low profile
- b. Management style (top down, decentralized...)
- c. Willingness to accept risk
- d. Life cycle stage (growing, stable, declining)

6. Objectives of Risk Management

- a. Pre-Loss
 - (i) Efficiency
 - (ii) Compliance
 - (iii) Priorities set
 - (iv) Minimum variance from planned activities
- b. Post-Loss
 - (i) Continuation of operations
 - (ii) Return to efficiency
 - (iii) Stability or growth
 - (iv) Minimize financial impact
 - (v) Protect public image

7. Hierarchy of Objectives *

- a. Survival
- b. Stability
- c. Profitability
- d. Growth
- e. Citizenship

*This hierarchy was developed for “for-profit” organizations and does not fit public agencies where the importance of citizenship is much higher.

8. Risk Management job description items

- a. Develop and implement risk management policies and procedures
 - (i) Risk control programs
 - (ii) Accident Investigation
 - (iii) Claim procedures
- b. Communicate risk management efforts to management and staff
 - (i) Recommendations and reports to management
 - (ii) Training for management and staff

- c. Identify risks to the organization
 - (i) Conduct risk surveys
 - (ii) Review financial reports
 - (iii) Review legal documents (service contracts, leases, Interlocal and mutual aid agreements)
 - d. Analyze and measure exposures to risk
 - (i) Maintain database of value of assets
 - (ii) Monitor changing circumstances effecting exposures
 - (iii) Develop data on expected losses
 - e. Coordinate or confirm regulatory compliance
 - f. Develop risk financing plan
 - (i) Identify level of retention
 - (ii) Implement risk transfer procedures
 - (iii) Secure insurance for appropriate risks
 - g. Develop allocation of cost of risk
 - h. Monitor and update risk management program
9. Others important to managing risk (Risk Management Team)
- a. Board or council
 - b. Financial officer(s)
 - c. Legal department
 - d. Human Resource department
 - e. Safety personnel
 - f. Supervisors
 - g. Staff
10. Benefits of a Risk Management Program
- a. Reduced cost of risk
 - b. Improved budget management
 - c. Safer workplace
 - d. Reduced interruption to operations
 - e. Improved public image
11. Cost of Risk Components
- a. Retained losses – Deductibles, self-insured retention, cost of claims not covered by insurance, costs of claims in excess of limits of insurance.

- b. Insurance premiums – Amount of premiums adjusted by audit or endorsement.
- c. Risk management department costs – Salaries, benefits, and operational costs of employees of the risk management department.
- d. External services
 - (i) Risk consultants
 - (ii) Third Party Administrators
 - (iii) Loss control/safety services
 - (iv) Actuarial services
 - (v) Legal services
 - (vi) Agent/Broker fees
- e. Indirect costs
 - (i) Overtime
 - (ii) Fines or penalties

12. The Risk Management Process

- a. **Risk Identification** – What is exposed, and what is it exposed to?
- b. **Risk Analysis** – What is the chance a loss will occur, and what will the loss cost?
- c. **Risk Control** – What can be done to reduce the chance of loss occurring, and the cost if there is a loss?
- d. **Risk Financing** – What method will be used to fund difference types of losses?
- e. **Risk Administration** – What changes can/should be made to the risk management program based on changing circumstances?

SECTION 2

Identifying Loss Exposures

Loss exposure is any condition that presents a possibility of loss. Loss Exposures have the following qualities:

- Financial value exposed to loss
- Cause of loss (Peril)
- Potential financial consequences that flow from the loss

Loss exposures belong to one or more of the following categories:

1. **Property Loss**
2. **Liability Loss**
3. **Human Resource Loss**
4. **Net Income Loss**

However, there are various ways to categorize loss exposures. For the purposes of your coverage with UCIP, the exposures are identified as belonging to at least one of the following:

- Property
- Crime
- General Liability
- Automobile
- Workers' Compensation

When these terms are used in relation to coverage, you will see that Crime coverage is a kind of property loss coverage. Automobile coverage is a kind of liability coverage. Since Crime and Automobile coverage have some unique qualities, they are broken out separately.

1. Identifying Property Loss Exposures

Property loss exposures come from the *possibility* that a property the county has a financial interest in (owned, used, or subject to some other rights enjoyed by the county) will be damaged resulting in a loss to the county. The term 'damage' includes the destruction, taking, or the loss of use of the property.

Any unintended event, from the owner's perspective, that damages or impairs the use of the property in some way that lowers its value, is a loss.

The first step in identifying exposures is to identify the property that the county has some kind of economic interest in.

Property may be classified as tangible or intangible. Tangible property has a physical form that can be seen or touched. Real property is tangible property consisting of land and the structures permanently attached to it, and whatever is growing on the land. Personal property is tangible or intangible property that is not real property. Intangible property is personal property that has no physical form.

Examples of tangible personal property include a great variety of things:

- Money and Securities
- Accounts receivable records
- Inventory
- Furniture, equipment, supplies
- Computer equipment
- Machinery
- Valuable papers and records
- Mobile property

Examples of intangible property include:

- Copyrights
- Patents
- Trade secrets
- (some) legal rights and privileges

Structures

Buildings and other structures are typically evaluated according to four categories, most of which relate to the structure's ability to withstand fire.

Construction—what is it made of? In the order of most susceptible to fire to the least susceptible:

1. Frame
2. Joisted masonry
3. Noncombustible
4. Masonry noncombustible
5. Modified fire resistive
6. Fire resistive

Occupancy—how is the structure used? Are the contents susceptible to fire?

Protections—what risk control techniques are used to prevent or reduce damage?

External exposures—what hazards exist outside the structure?

Property Values

In identifying property, it is important to know the value of the particular property in question. There are various methods of valuing property depending on the purpose of the valuation. For our purposes, we will look at four kinds of valuation:

Replacement cost: the amount required to replace the lost, damaged or stolen or destroyed property with comparable property. This is the most commonly used standard for insurance purposes.

Reproduction cost: the cost of duplicating exactly by using materials and artistry comparable to those used in the original. This is useful when there is a need to historically or artistically restore buildings, monuments or works of art.

Functional replacement cost: cost of obtaining a replacement that, while not identical, performs the same functions as the property being replaced.

Actual cash value: the replacement cost minus its physical depreciation.

The valuation of county-owned property conducted by RCI over the last three years was almost exclusively based on replacement costs. Occasionally there was a request for functional replacement cost or reproduction costs which led to different values being obtained for a specific property.

Legal Interests in Property

Property can only be insured when there is a legal interest in the subject property. In order to have an insurable interest, the county needs to own, lease, rent, borrow or exercise care, custody and control over a particular piece of property.

Causes of Property Loss

When identifying property loss exposures, it is helpful to divide them into three categories: natural causes, human causes and economic causes.

Natural Causes:

- Earthquake
- Fire
- Flood
- Hail
- Lightning
- Sinkhole
- Smoke
- Snow and Ice
- Volcanic Activity
- Water
- Windstorm

Human Causes:

- Aircraft
- Collapse
- Crime
- Explosion
- Falling Objects
- Riot—Civil Strife
- Vandalism
- Vehicles

Economic Causes:

- Boycotts
- Strikes
- Technology Changes
- War

2. Identifying Liability Loss Exposures

Liability loss exposures are those which present the possibility of loss resulting from a claim alleging the county's legal responsibility for injury or damage suffered by another party. Legal liability typically arises in three ways: tort, contractual obligation and statutory obligation.

A tort is a wrongful act or omission, other than a crime or breach of contract, for which the remedy is monetary damages. Remedies for torts are pursued in civil court, not criminal prosecution. There are three categories of torts: negligence, intentional and strict liability.

- **Negligence.** Where there is a duty to exercise a certain standard of care, and that duty is breached, and the breach causes harm, the tort of negligence has occurred. Duties may arise under the common law or may be statutory. If a person does something that a reasonably prudent person would not have done under similar circumstances, the person's act is considered negligent. If the person fails to act in a situation where a reasonably prudent person would have acted, then the failure to act is considered a negligent omission. Examples of negligent torts include: medical malpractice and unintentional traffic collisions.
- **Intentional Torts.** An intentional tort is an act that is performed with a general or specific intent to perform the act that is held to be a tort. Intentional torts are categorized as being against the person, torts involving property, torts involving business. Torts against the person include: assault, battery, false imprisonment, false arrest, defamation (libel or slander), malicious prosecution, and abuse of process. Torts involving property include: trespass (which includes interference with personal property), conversion (which includes theft, damage or destruction) and nuisance. Torts involving business include: fraud, bad faith, trade disparagement.
- **Strict Liability Torts.** Strict liability can be imposed by statute or by tort law. Strict liability is not based on negligence or the intent to cause harm—the act which causes harm is sufficient to impose liability. Strict liability torts involve abnormally dangerous products or activities such as: using dynamite, noxious chemicals, keeping wild animals, selling dangerously defective products.

Contracts

Legal liability can be incurred via a contract. A contract is any agreement that contains an offer, an acceptance and where something of value is given in exchange for a promise to act or not act. Some, but not all contracts are required to be in writing.

Liability is incurred through a breach of contract or pursuant to a hold harmless clause in the agreement. A hold harmless clause is an agreement that one party (A) will pay (or indemnify) the other party (B) for the losses sustained by the other party (B).

Statutes

Statutes—whether local, state, or federal—can impose liability for certain actions regardless of whether a party is negligent or committed a tort. Civil rights liability and Workers' Compensation are kinds of statutorily imposed liability.

Possible Sources of Liability Loss

Premises and Operations:

- Slip and fall

- Mobile Equipment

- Liquor liability

- Bailment

Products Liability

Completed Operations

- Automobiles

- Watercraft

- Workers' Compensation

- Environmental Pollution

Professional Activities:

- Law, medicine, education, accountants, architects

- Directors' and Officers' Liability

- Employment Practices

- Employee Benefit Plans

3. Identifying Human Resource Loss Exposures

Human Resource Loss exposures are those that relate to the possibility of loss caused by a person's death, injury, disability, retirement, or resignation that deprives the county of that person's special skills or knowledge.

4. Net Income Loss Exposures

Net income loss exposures relate to the possibility of a reduction in net income. A net income loss is a reduction in income or an increase in expenses or a combination of the two.

Methods for Identifying Loss Exposures (See Appendix)

When seeking to identify loss exposures specific to your county, consider using the following resources. Some sample resources are provided in the appendix, some are readily available

in your workplace and some of the information is available from UCIP. Please contact us for help or suggestions.

Risk Assessment Questionnaires

Loss histories

What is your county's history of loss?

Financial statements

Assets, revenue, cash from investments

Official records

Records that identify authority, policies, and procedures as well as those documents that are legally required to be maintained by the county can be crucial in identifying sources of loss—or may themselves be subject to loss exposures

Flowcharts / organizational charts

These charts can be important in identifying key operations or employees

Personal inspections

Nothing can substitute for personal inspections for identifying exposures

Utah Counties Insurance Pool

The Pool has 20 years of data from 26 counties that can help point to important areas

Internal expertise—The Risk Awareness Program

Obtaining information from your line employees and supervisors can be critical

Safety Committee

Accident Review Board

SECTION 3

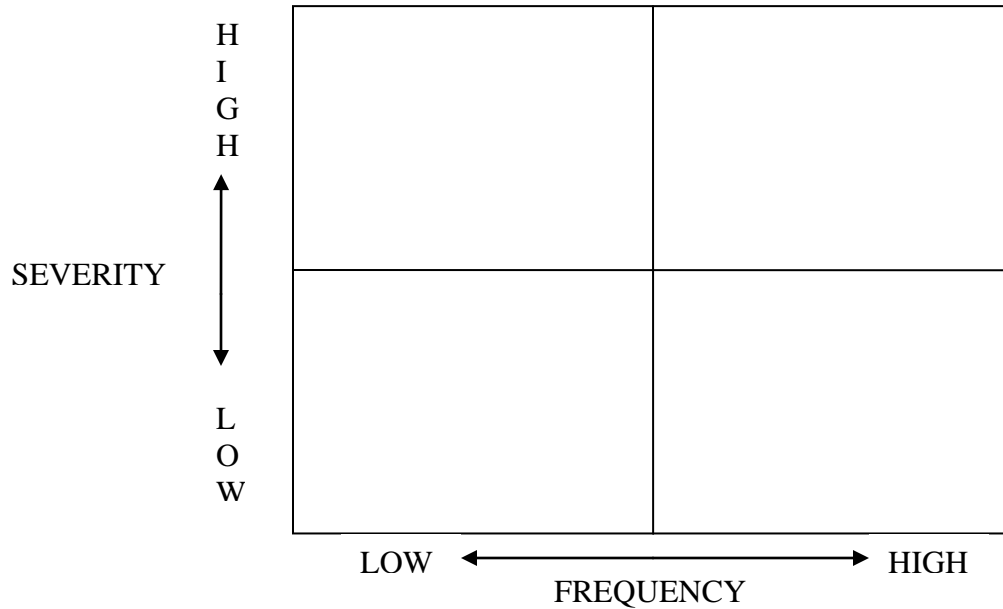
Risk Analysis

1. Two Categories of Analysis:
 - a. Qualitative – Importance of the risk
 - Will it disrupt operations?
 - Will it negatively impact your public image?
 - b. Quantitative – Value or frequency of the risk
 - How much will a loss cost?
 - How often can you expect the loss to occur?
2. Types of Analysis:
 - a. Loss analysis
 - b. Risk mapping
 - c. Probability analysis
 - d. Linear regression
 - e. Payback analysis
 - f. Cost benefit analysis
 - g. Net present value analysis
 - h. Internal rate of return
3. Qualitative Risk Analysis
 - a. Prioritization
 - Critical Risks
 - Important Risks
 - Unimportant Risks
 - b. Areas to assess
 - Organization's appetite for risk
 - Effect on customer service
 - Contractual obligations
 - Employee safety
 - Regulatory and legal compliance
 - Public image

4. Risk Mapping Method

A visual analytical tool used to identify and understand the risks to an organization.

Sample Risk Map



5. Loss Data Analysis

- a. Frequency
- b. Severity

6. Data quality concerns

- a. Completeness – Do you have all the data for all the losses in the period you are analyzing?
- b. Consistency – Does the data for each loss use the same basis for quantification?
- c. Have the same codes or descriptions been used for similar losses?
- d. Integrity – Is the data accurate? How many times is “Other” used?
- e. Relevance – Is the data that has been captured helpful to answering your questions?

7. Classifying Data

- a. Loss Types
 - Property
 - Liability

- Human Resource
- Net Income

8. Data Analysis

There are several ways to analyze data and a lot of data must be captured on each claim.

- Frequency
- Severity
- Cause or peril
- Location
- Department
- Date or season
- Time of day or day of week
- Gender
- Age

9. Quantitative Analysis

The main area of Quantitative analysis is in the form of forecasting losses. The best way to forecast losses is through analysis of historical losses.

Basic Quantitative Analysis of Losses

- a. Frequency Development – Forecasting the frequency of future losses based on historical loss data.
- b. Severity Development – Determining the ultimate cost of recent losses by analyzing the changes in actual costs of older claims.
- c. Payout Development – Determining the cash flow of payouts for recent claims based on payout patterns of older claims.

10. Methods Utilized in Loss Analysis

- a. Confidence Intervals – Calculating the standard deviation around the average of historical losses to develop a range of loss frequency which is accurate to a certain level of confidence.
- b. Linear Regression – Plotting losses on a graph, and projecting the trend line out to the next year to estimate the number of losses.
- c. Incurred Loss Development – Determining the ultimate value of recent claims based on the current amount incurred (paid plus reserved) on the claim.

- d. Paid Loss Development – Determining the ultimate value of recent claims based on the current amount paid on the claim.

11. Other Analysis Methods Utilized

- a. Deductible Analysis – Determining the most advantageous level of retention based on loss forecasting.
- b. Net Present Value – Consideration to the time value of money.
- c. Benefit/Cost Ratio – Calculation of the value of risk control methods to the cost of implementation.
- d. Payback – Calculation of the length of time it will take to recoup the cost of implementation of various risk control methods.
- e. Internal Rate of Return – Calculating whether the net present value of a risk control method meets the minimum return on investment (weighted average cost of capital) set by the organization.

SECTION 4

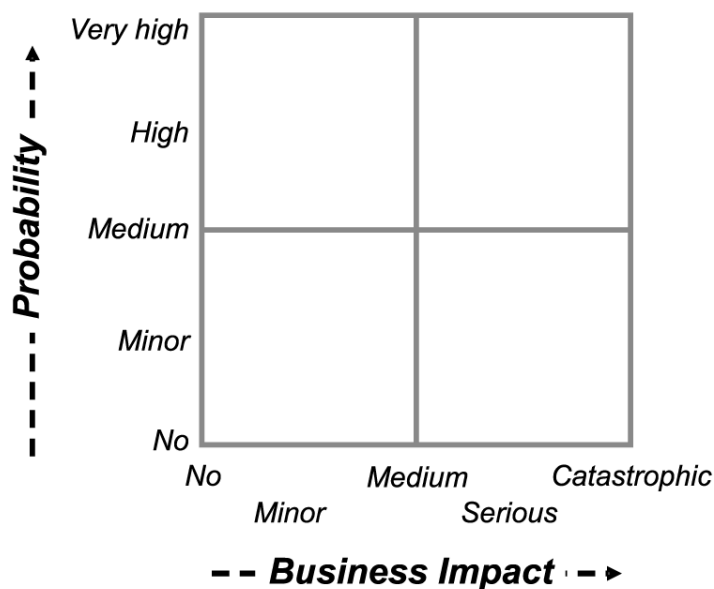
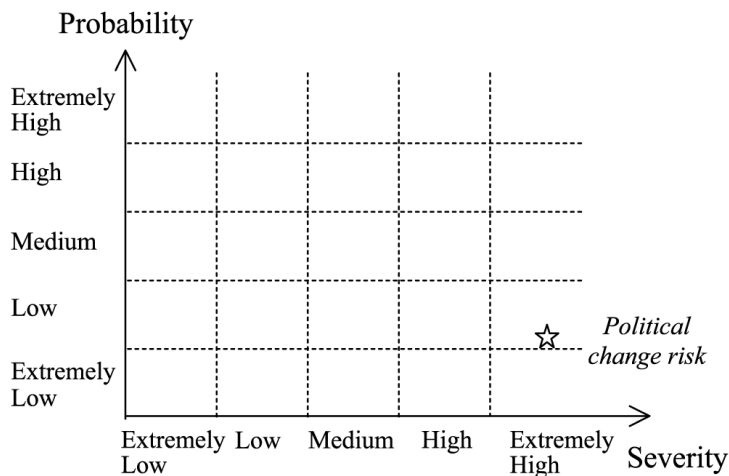
The Risk Matrix

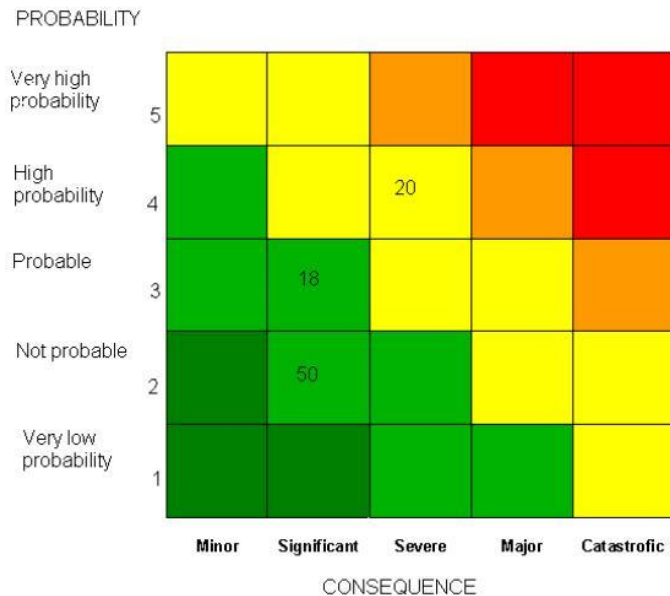
1. Introduction

The Risk Matrix is a tool of risk analysis that helps to classify and categorize risk so that decisions about how to handle exposures to risk can be dealt with in a logical way. It can also help us to identify what risk management tools are most appropriately applied to certain categories of risk.

2. How It Works

Understanding, how the matrix works can give you an effective way to conceptualize the risks you have identified and analyzed in terms of frequency and severity. Risk Matrices can come in a variety of formats and complexities a few of which are shown below.





Each one of these examples is actually based on the same concept, which is to plot risk on some kind of map in order to indicate both the frequency and severity of the loss or the exposure to risk of loss. The model we will be using is the traditional four-quadrant Risk Management Matrix or Map as set out on the next page.

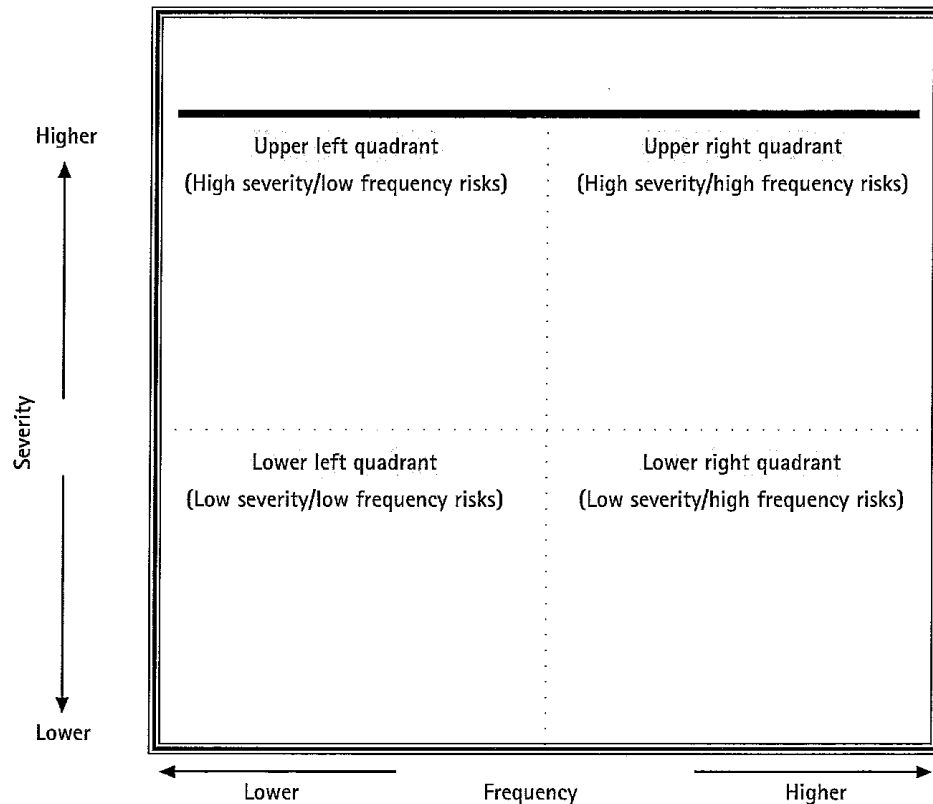
In introducing the Risk Matrix, it is not our goal to make the Risk Management process rigid or complicated. The purpose of the Matrix is to provide you with a tool that can help you conceptualize or visualize loss in a way that will give you a rational way of dealing with it. So use the Matrix only if it makes sense for you to do so.

The Matrix is set into four quadrants. The lower left quadrant plots risks that are low frequency and low severity risks. The lower right plots risks that are risks that are low severity and high frequency. The upper left plots risks that are high severity but rarely occur. The upper right plots those that are both high frequency and high severity.

It is important to understand that the lower left corner represents the number zero on both the vertical and horizontal axis. The dotted lines separating the quadrants represent no fixed number. It is up to each county to decide where the line of high severity or high frequency lies for them. Decisions about where to place the lines are based on the entity's financial health and the ability to absorb a particular loss and its appetite for risk.

While the Risk Matrix is normally seen as a tool for dealing with financial impact on an entity, it may be used also to map the impact of loss on operations regardless of financial impact. For governmental entities the provision of services is paramount. Even if exposures do not lead to substantial loss to the entity, the fact that services are interrupted, impaired, or damaged may well be intolerable for the community at large, or at the very least politically devastating. So on our Risk Matrix, we may want to consider the severity axis as measuring impact on the entity rather than or as well as a specific dollar amount.

Risk Management Matrix



The frequency axis can be plotted from zero to any number that is useful in the analysis. The severity axis can be plotted in terms of dollars, thousands of dollars, or some other indicator of the level of impact on the county that is useful for the analysis.

Prior to using the Risk Matrix, the Risk Manager should have engaged in the process of identifying and evaluating the exposures of the county. Essentially, the Risk Manager is responsible for forecasting the likelihood of risk and the amount of damage or loss it would cause.

Risk Managers should fight the tendency to see risk merely as a matter of dollars and cents. When plotting a matrix, consider severity from the following perspectives:

- **Ability to Absorb Losses:** The Risk Manager must also evaluate a particular department's ability to financially absorb losses. It is necessary to estimate the capacity of those operations to sustain losses without impairing services. This will be different for different departments within the county operation.
- **Risk Tolerance:** Another important variable is the risk tolerance of the governing body. A risk should be considered more severe when members of the governing body are uncomfortable with potential losses. Many factors may come into play here—including political concerns.

- **Impact on Community:** Finally, it is important for team members to understand that potential losses can be severe even if they do not directly affect a public entity's assets or cause it to incur liability. For example, a natural or civil disaster may have relatively little direct impact on a local government but cause severe damage to the community it serves. These factors can have an indirect impact on the county.

Once you have determined the impact of a particular risk in terms of severity and a frequency, the risk can be plotted on the Matrix. Plot the risk or exposure at the intersection between the frequency and severity of the particular risk. Once the risks have been plotted, the quadrant lines can be moved and adjusted to suit the needs and tastes of the county.

3. Risk Management Tools and the Quadrants

The real value of the Matrix is that it points the Risk Manager toward the traditional Risk Management tools that can be applied with beneficial effect to address risk that falls in particular areas of the Matrix.

a. Low Frequency/Low Severity

If a particular exposure falls in the Low Frequency/ Low Severity quadrant, the usual risk management tool for addressing that is to retain the risk passively. Retention means that we will not seek to avoid the risk, nor finance the risk, but pay for any losses as they arise. When we passively retain the risk, it means we will not implement any loss control processes because the effort put into the loss control effort would not yield a financial benefit. In other words, loss control for a low frequency, low impact exposure would be a waste of time and resources. It would cost too much for the marginal benefit to be obtained.

b. Low Frequency/ High Severity

The traditional response for identifiable low frequency and high severity exposures is to transfer the risk to some other party or obtain insurance. These exposures are ideally suited for insurance because a relatively small sum can be paid annually against the unlikely possibility that a loss will occur in any given year.

Insurance is only one way of transferring risk. Risk may also be contractually transferred through indemnity agreements, or hold harmless clauses.

c. High Frequency/High Severity

The best advice for entities engaging in high frequency/high risk enterprises is to simply avoid engaging in such activities. Such activities are less attractive to insure because the frequency and severity combine to make such options financially prohibitive. It is therefore recommended that any such activities be seriously scrutinized and evaluated in order to determine if they are a necessary part of the county's overall mission.

As a practical matter, sometimes it will be necessary to continue to engage in high frequency/high severity behaviors. For instance, arrests are a high frequency/high risk activity for Sheriff's Deputies but we simply cannot avoid arresting people. So rather than avoiding such activities we must apply other risk management strategies.

d. High Frequency/Low Severity

Exposures that result in high frequency but low severity losses are particularly amenable in most cases to be retained actively. This means that we retain the risk but we also engage in loss control efforts to reduce the effect of the loss or to prevent the losses from occurring.

Requiring seatbelts would be a means of reducing the severity of loss or injury to an individual. Requiring defensive driving training would be an example of a strategy that intends to both reducing severity of loss as well as preventing loss.

4. Combining Strategies

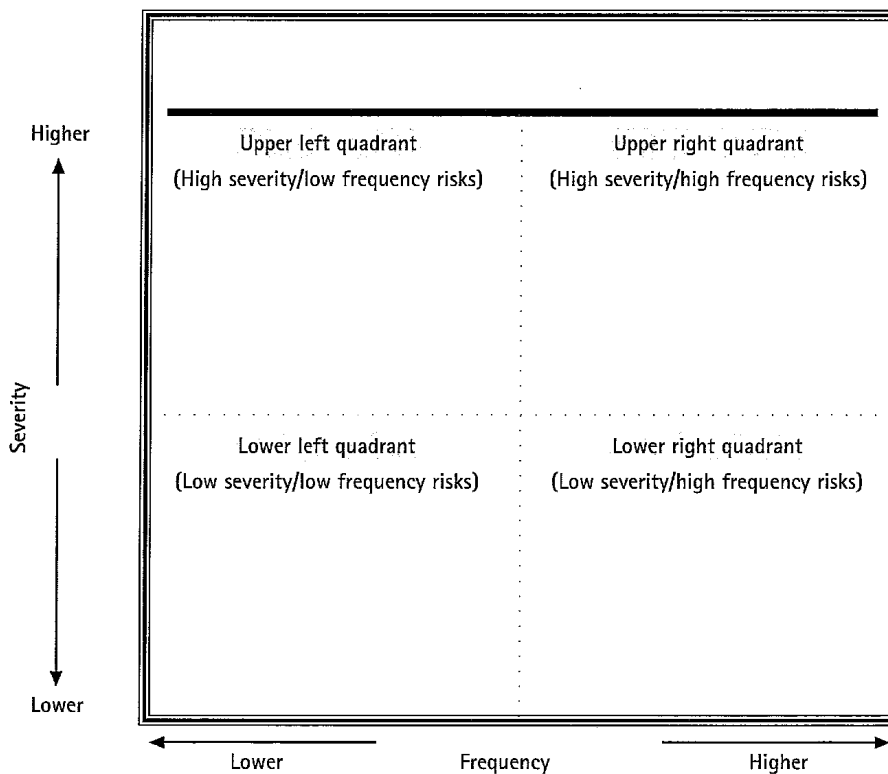
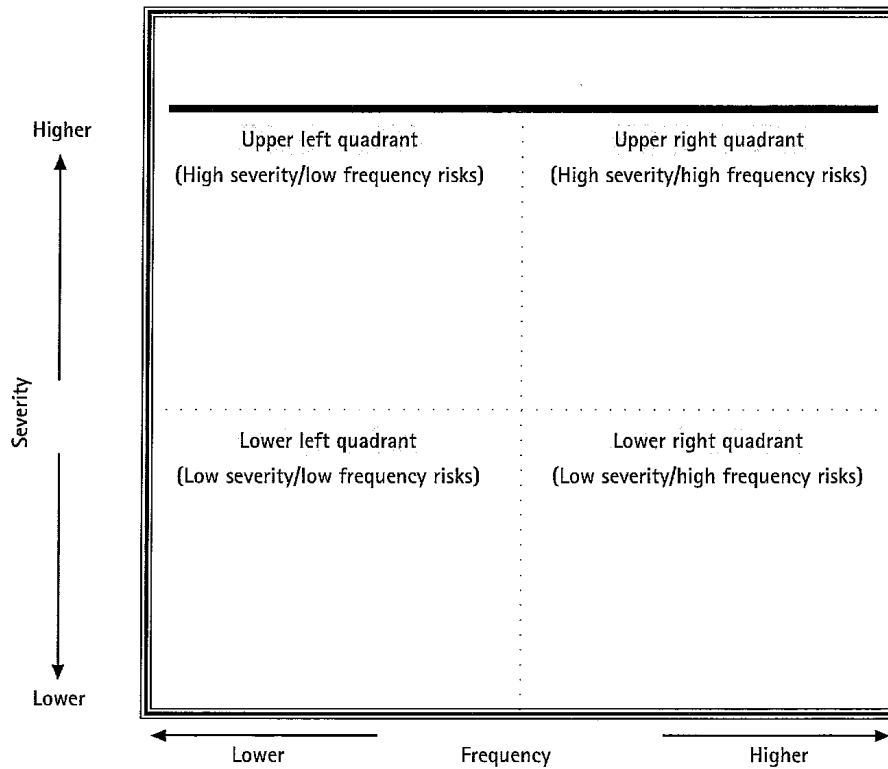
Frequently, we combine strategies because it makes good fiscal sense. Each of our member counties has elected to obtain coverage through UCIP. Coverage through UCIP is a kind of risk financing arrangement that combines some qualities of risk retention with other qualities of insurance coverage. Whether you retain risk or obtain insurance, it makes sense to do what you can to reduce the likelihood of injury from loss—in other words—loss control. If you aren't insured, you can use loss control strategies to reduce loss expense. If you are insured, you can use such strategies to help reduce loss—thereby reducing your insurance costs.

5. Establishing Priorities

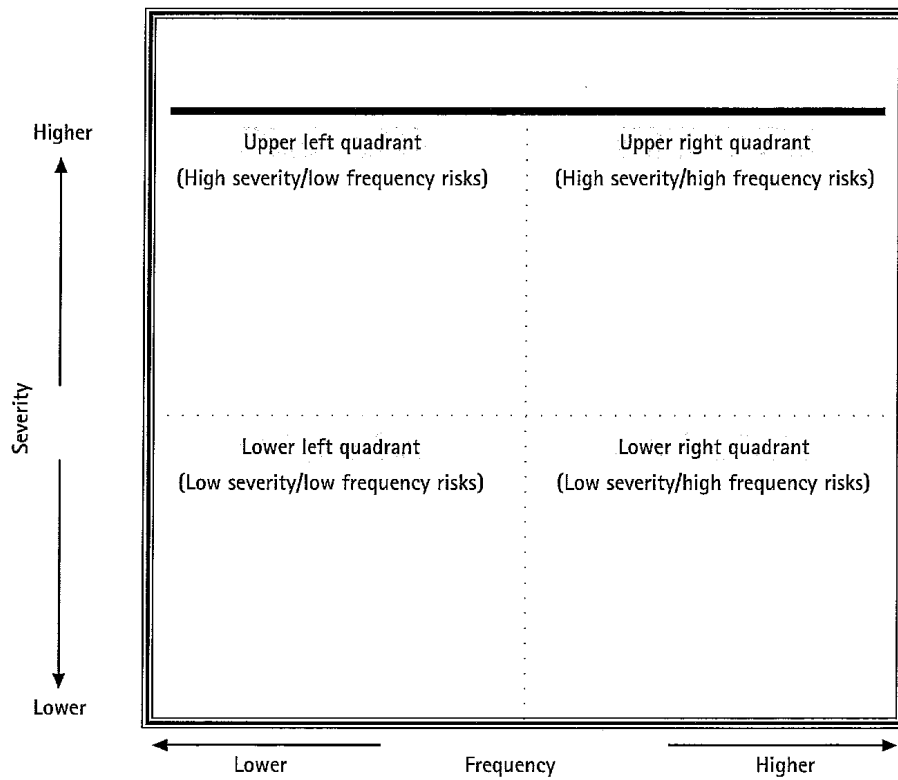
Not only does the Matrix suggest certain risk management tools or protocols, it also provides a graphic depiction of priorities for those risks that are retained by the county. The lower frequency and severity risks need little or no attention. We shouldn't waste time and resources dealing with any efforts to control or finance these risks. But as the frequency and severity grows, so should our efforts to control or prevent risk. Priority should be given to those risks that exist in the High frequency/High Severity quadrant of the Matrix. When two items occur at or near the same frequency, the one with the greater potential impact on the county should generally be dealt with first.

In order to give you some experience in dealing with the Risk Matrix, we have included some sample Matrices to use in class.

Examples:



Examples, continued:



SECTION 5

Risk Control

1. Introduction to Risk Control

Definition of Risk Control – Any conscious action or inaction intended to reduce the probability, frequency, severity or unpredictability of loss.

Two major classes of Risk Control

- Risk prevention – aimed at reducing the frequency of loss.
- Risk reduction – aimed at reducing the severity of loss.

Four Primary Risk Control Techniques

- Risk Avoidance
- Loss Prevention
- Loss Reduction
- Segregation/Separation/Duplication of Exposures

Typically, a combination of two or more methods is utilized to deal with a specific risk.

2. Risk Avoidance

Eliminating an exposure or activity will eliminate the possibility of loss.

- No additional risk control necessary.
- Often difficult to sell to management.
 - May conflict with organizational goals or mission.
 - Loss of revenue may make avoidance unacceptable.
 - Avoidance may create public image issues.
 - Activity may be mandated by law or regulation

3. Loss Prevention

Actions aimed at reducing the frequency of claims that cannot be eliminated by avoidance.

- Focus is on the chain of events that lead to a loss, and disrupting the chain of events.

4. Loss Reduction

Actions aimed at reducing the severity of losses that do occur.

- Can be accomplished both pre-loss and post-loss.

5. Segregation/Separation/Duplication of Exposures (SSD)

Limiting the concentration of exposures or creating back up resources to limit the severity of loss.

- Segregation – separates high risk or high value exposures from other exposures and operations.
- Separation – spreads property values and operations over several locations, to reduce the potential loss at any single location.
- Duplication – Maintaining back up of resources required to continue operations to limit loss arising from shut down.

There are two Commonly Recognized Accident Causes:

- Unsafe acts; and
- Unsafe conditions

There are six Primary Loss Prevention Techniques:

- **Hazard Elimination** – Removing an unsafe condition, substance or procedure from the process, which will reduce the likelihood of an accident occurring.
- **Hazard Reduction** – Substituting a less hazardous condition, substance or procedure that will reduce the likelihood of an accident occurring.
- **Engineering Controls** – Use of guards, dual switches and automation to reduce the likelihood of accidents occurring.
- **Administrative Controls** – Implementing changes to procedures, rules or regulations to reduce the likelihood of accident occurring.
- **Personal Protective Equipment** – Providing special safety clothing and equipment to employees to limit the likelihood of an injury to the employee.
- **Training** – Reducing the potential for unsafe acts through training of proper procedures to reduce the likelihood of an accident occurring.

SECTION 6

Risk Reduction

1. Introduction

Risk or loss prevention is one kind of loss control strategy. The goal there is to prevent losses from occurring or at the very least, to reduce their frequency. But when the loss does occur, it is very important to have in place strategies and techniques for reducing the severity of the loss. This is called loss or risk reduction.

Risk reduction can be further divided into strategies that are implemented pre-loss and those that are implemented post-loss. Using a seatbelt is a mitigation strategy that is implemented pre-loss. Such a strategy will likely reduce the severity of an injury should an accident occur. Providing medical assistance to an injured person is a post-loss strategy.

We will look at strategies for reducing risk in the various categories that have already been discussed: Property, Intellectual Property, Criminal Losses, Natural Disasters, Personnel Loss, Liability Loss, Automobile Loss, and Environmental Loss. We will also discuss Claims Administration as a loss reduction strategy.

2. Risk Reduction in Property

a. Fire/Water

Perhaps the most obvious loss reduction strategy for structures is the implementation of a fire protection system. Also, requiring adequate fire breaks between structures can help limit the spread of fires from structure to structure.

The use of internal sprinkler systems can help limit damage to a structure as well as the contents of the structure. Since most fire suppression systems and virtually all firefighting are water based, it is well to consider the damage caused by water to structures and contents and provide strategies to reduce the damage and bad effects caused by the water. Water damage can be reduced by using elevated storage and having adequate drainage.

One of the most damaging effects of water is the creation of an environment that produces mold. Are you at risk for mold infestation at the current time? If you suspect that you are, consider the following questions:

- Are there existing moisture problems?
- Have building materials been wet more than 48 hours?
- Are building occupants reporting musty or moldy odors?
- Are building materials or furnishings visibly damaged?
- Has maintenance been delayed?

The source of the moisture must be stopped and salvable material needs to be dried. Samples should be taken of any mold and expert determination should be made of the kind of mold present. Professional assessment of mold and cleanup requirements is recommended.

Other Strategies:

- Salvage and restoration
- Alternate resource identification
- Alternate sites
- Reciprocal arrangements
- Emergency finance

b. Intellectual Property

Counties occasionally will have issues that arise concerning intellectual property. The best way to protect county interests in copyright, trademark, patent, or trade secret is to give conspicuous notice of the county's interest and to make sure that interest is registered in the way designated by law.

c. Crimes

Criminal acts involving property may be initiated by employees or outside parties. Most activities used in loss control regarding crimes are aimed at prevention. Strategies to reduce loss from criminal activities include:

- Use of cameras and video surveillance
- Prompt and aggressive investigation and prosecution of crimes
- Accurate record keeping
- Decrease amount of onsite cash and valuable at any given time
- Implement policies regarding computer use
- Implement computer security controls
- Duplicate facilities
- Emergency Management for terrorist activity

d. Natural Disasters

Short of relocating, most activities regarding natural disasters are aimed at reduction. Whether activities are regarded as pre-loss or post-loss, the severity of any natural disaster can be reduced by the implementation of an effective disaster recovery plan. A plan that has various components and strategic responses targeted to particular disasters can make the difference between substantial loss of life and a minor disturbance. A limited list of loss reduction strategies would include:

Pre-loss techniques:

- Separate different occupancies within a single building
- Duplication of operations
- Mobile command center
- Automatic fire suppression and detection systems
- Onsite disaster equipment and devices
- Disaster-related supplies
- NIMS training
- Disaster drills
- Building design, reinforcement or modification

Post-loss techniques:

- Disaster Recovery Plans
- Immediate notification of authorities
- Evacuate personnel
- Implement incident command
- Isolate damaged areas
- Cover building openings
- Start salvage operations
- Implement repairs
- Emergency patrols
- Care for injured

e. Personnel Loss

Personnel losses come about through injury, illness, retirement and/or termination (voluntary or otherwise). Of most concern to the Risk Manager are losses due to work related injury or illness.

f. Injury or illness

Most loss control is aimed at preventing injury or illness through measures such as machine guarding and personal protective equipment. These measures can also mitigate the severity of loss. Other loss reduction strategies include:

- Ergonomic designs, procedures and equipment
- Prompt medical care
- Return to work programs
- Rehabilitation
- Separation and duplication
- Cross-training
- Light-duty temporary positions
- Adequate equipment, training and supplies for emergency situation
- Accident investigation

g. Retirement or termination

The loss of key personnel through retirement or termination can critically impair an organization due to the loss of important knowledge skills and abilities as such people exit the workforce. In order to reduce the impact of such losses the following reduction strategies might be imposed.

- Identify critical key employees
- Identify personnel who could fill the vacated positions
- Provide training or cross-training
- Financial incentives to retain key personnel

3. Liability Loss

Despite the best efforts to avoid or eliminate liability, losses will occur. To help reduce liability losses, there are several strategies to consider—both pre-loss and post-loss.

Pre-loss Strategies

- Customer service training
- Educate workforce on liability exposures
- Train employees on how to respond to potential claim situations
- Train employees to promptly report potential claims

Post-loss Strategies

Initial Response

- Emergency first aid treatment
- Documenting relevant information at the scene
- Preserve defenses by not admitting fault
- Prompt reporting of claim or lawsuit to insurer

Treatment of Claimants

- Be polite and respectful
- Showing concern and compassion for injured

Alternative Dispute Resolution ADR

Lawsuits are timely and costly. Consult with your insurer on the advisability of engaging in some dispute resolution process. Some processes can be legally mandated by court rule, statute, or contract. Many of these techniques are routinely employed by UCIP in an effort to reduce loss.

- Voluntary Restoration. Voluntarily replacing property, paying for medical bills and etc. can reduce the likelihood of a lawsuit. This should never be done without evaluating legal liability with your insurer.
- Negotiation.
- Mediation
- Mini-trial
- Arbitration

Litigation

- Discovery response
- Coordination with legal counsel

Development of Defenses

- Governmental Immunity
- Comparative negligence—the degree to which the county’s liability could be reduced due to the plaintiff’s own negligence
- Assumption of risk—where the plaintiff understood the risks associated with a certain activity and engaged in the activity anyway, he has assumed the risk and may not be able to succeed in a lawsuit.

4. Automobile Loss

Probably the most common loss occurrence our counties face relates to motor vehicle operation. Loss reduction strategies are many and varied.

Vehicle Selection

More expensive vehicles are costlier to replace. Vehicles should be evaluated for safety considerations and durability.

Maintenance

Documented routine maintenance can lead to reduced losses and can help turn away claims that we contributed to mechanical failure.

Inspection

Pre-operation inspections and checklists assist in making sure that the vehicle is fit for the purpose of the operation.

Operator Selection/Control

One of the most effective strategies is to not allow bad drivers to operate county vehicles. Before allowing anyone to drive your vehicles, make sure you have evaluated their

driving record. If, an employee causes a crash, have them attend remedial training. If they continue to cause accidents or have tickets, require termination.

Training

All employees should have regular training in defensive driving. Some kinds of operations require specialized training. Documentation is essential.

Incident investigation

Any accident should be promptly investigated by the Sheriff's Office or other competent law enforcement agency. A report should be obtained by the supervisor or risk manager.

Accident Review Board

Accountability is a vital part of the loss reduction process. The accident review board should review the reports of the accident investigation and make a determination as to whether the accident could have been avoided by the county employee. Remedial measures should be recommended by the Board.

5. Environmental Loss

Certain county operations involve the use of materials that are a threat to pollute ground, water or air. Road department operations are of particular concern. Violations of statutes, injury to person, private property, or pollution of water supplies can be the result.

Loss control strategies include:

- Compliance with statute or rule
- Pollution Source Reduction through:
 - Containment
 - Operational controls
 - Changing or modifying equipment
 - Changing materials

6. Claims Administration

Efficient claims administration can be very effective in reducing the effects of loss. Claims administration comes into play as a post-loss reduction strategy.

7. Claims Process

The claims management process consists of the following steps:

- Acknowledging loss notice

- Verifying coverage
- Making initial contact with all claimants
- Investigating claim
- Determining cause of loss
- Determining amount of damages and setting loss reserves
- Concluding loss

8. Claims Administration Management

In order to ensure that claims administration is being handled in a cost-efficient way, it is necessary to provide administration management. Whether claims are being handled in-house or by a third-party administrator, some kind of claims monitoring needs to take place.

Claims information system

The claims information system can provide the risk manager with a great deal of information regarding the status of current claims. It can also help identify trends and trouble spots.

Claim audits

Claims audits are independent evaluations of claims administration records. This is particularly helpful to ensure that claims are being handled responsibly and efficiently. It can also help discover weaknesses or irregularities in the claims process

9. Claims Cost Reduction

Litigation Management

Claims can be substantially reduced by actively monitoring litigation costs and decision making. UCIP's litigation management team reviews attorneys, attorney fees, legal strategies, and case status reports.

Subrogation

Recovery of damages and other costs from other responsible parties can effectively reduce claims costs and prevents unjust enrichment.

Cost Containment of Medical Claims

Cost containment on medical claims through fee audits, fee schedules, and utilization review is of particular help in evaluating workers' compensation claims

10. Loss Reserves

After the claims manager has determined the amount of damages or value of a particular claim, he or she reserves an amount of money in order to pay for the incurred claim. Setting accurate reserves can be a difficult process—particularly when it comes to liability claims. If claims are under-reserved then there may be a false sense of security. Furthermore, reserve need to be adequate for IBNR and ALAE.

SECTION 7

Risk Financing

1. Insurance Terminology Definitions

Deductible – Amount of a loss the insured pays; can be a set dollar amount, a percentage of the loss, or a time period.

Expenses – Allocated loss adjustment expense (ALAE) are expenses charged to a specific claim such as medical records charges, experts or court costs. Unallocated loss adjustment expenses (ULAE) are general claim handling expenses not assignable to individual claims. Primarily made up of TPA fees or in-house claims costs.

Hard Market – Insurance market status with limited competition where carriers are skeptical about accepting risk. Premiums will be high, and coverage will not be inflexible or unavailable.

Incurred Losses – The amount paid to date plus the amount reserved by the adjuster on the claim for future payments anticipated.

Paid Losses – The amount paid to date on a claim.

Ultimate Incurred Losses - The incurred loss amount, plus the amount of IBNR calculated by the actuary. It is the best estimate of the ultimate cost of the claim based on current information and historical statistics.

Pure Loss Ratio – The amount of paid losses divided by the premium paid.

Total Loss Ratio – The amount of incurred losses divided by the premium paid.

Expense Ratio – the amount of the insurer's administrative expenses divided by the premium paid.

Combined Ratio – The amount of ultimate incurred losses times the expense ratio, divided by the premium paid.

Written Premium – The total premium for all policies issued by an insurer for a specified period of time regardless of the age of the policies.

Earned Premium – A pro rata amount of premium based on the age of policies issued by an insurer.

Unearned Premium – The balance of premium written which has not yet been earned based on the age of the policies issued by an insurer.

Deposit Premium – A portion of the ultimate premium to be paid which is due at the time the policy is issued.

Minimum Premium – The minimum amount of premium to be charged on a policy regardless of any audits or adjustments that might be made.

Manual Premium – The amount of premium generated by applying an insurer's basic rates prior to application of credits, debits or other charges.

Standard Premium – The manual premium modified for experience, loss constants and minimum premiums.

Credited Premium – The standard premium modified by premium credits, safety credits or debits, and expense constants.

Case Reserves – The amount the claim adjuster has reserved for additional payments anticipated on a claim.

Incurred but Not Reported (IBNR) – The amount calculated based on historical claim data that will be needed to pay for claims which have occurred but have not yet been reported, and the amount above the current case reserves that will ultimately be paid out on the claims already reported.

Loss Reserves – The amount of case reserves attributable to payment to the claimant, as opposed to the amounts reserved for defense and adjusting expenses.

Self insured retention – The amount of loss which the insured pays prior to the insurer's obligation to pay.

Soft Market – A competitive insurance market status. Carriers are willing to accept a lot of risk while charging low premium rates. Often carriers will throw in "free" coverages or increased limits to maintain premium volume.

2. Risk Finance Options:

- a. Self Funding
- b. Guaranteed Cost Insurance
- c. Deductible Plans
- d. Dividend Plans
- e. Retro Rated Plans
 - (i) Incurred Loss Retro Plan
 - (ii) Paid Loss Retro Plan

- f. Self Insured Retention with Excess Insurance
 - g. Captive Insurer
 - h. Group Plans
3. Considerations in Choosing Among Options
- Degree of Transfer/Retention
 - Fixed Cost vs. Variable Cost
 - Cash Flow
 - Loss Sensitivity
 - Service source and quality
 - Flexibility
 - Accounting and tax impact
4. Fully Insured Plans
- 100% transfer of risk to insurer subject to the exclusions, terms and conditions of the policy, up to the policy limits.
 - Co-insurance penalty creates level of retention
 - All excluded losses are retained
 - All loss exceeding limit is retained
 - Fixed premium except audits and endorsements.
 - Liability and workers compensation policies usually auditable
 - Endorsements for new autos, buildings, equipment...will all generate additional premium
 - Premiums paid up front in full. Least favorable cash flow option.
 - Coverage not loss sensitive to current year losses. Premium is sensitive to prior losses.
 - Insurance company provides all services. No option to unbundle services.
 - Many options available, but no flexibility within options. “Off the shelf” coverage due to state regulation on forms, rates and coverage.
5. Dividend Plans:
- Transfer similar to fully insured plan
 - Premiums fixed, except audits and endorsements.
 - Premiums paid up front in full. Dividends (excess premiums) paid back creating negative cash flow.
 - Dividend is sensitive to loss.
 - Insurance company provides all services. May need to hire claims consultant to audit dividend payment.
 - Many options available, but no flexibility within options. “Off the shelf” coverage due to state regulation on forms, rates and coverage.

6. Small Deductible Plans:

- Proportionately small retention with balance of risk transferred to insurer, similar to fully insured plans.
- Fixed premium similar to fully insured plans.
- Cash flow benefit created by reducing up front premium by paying deductibles as claims are paid.
- Insurance company provides all services. No unbundling.
- Options available for deductible levels and mechanics of payment. Flexibility of coverage similar to fully insured plan.

7. Large Deductible Plans:

- Deductible of \$100,000 or more, with balance transferred to insurer similar to fully insured plan.
- Premium fixed, but deductible credit is negotiable based on deductible amount and mechanics.
- Cash flow benefit created by reducing up front premium by paying deductibles as claims are paid.
- Insurance company provides all services, no unbundling. May need to hire actuary or consultant to determine appropriate retention level.
- Deductible amount and mechanics negotiable, as well as deductible credit. Coverage flexibility similar to fully insured plan.

8. Retrospectively Rated Plans:

- Transfer of risk similar to fully insured plans.
- Estimated premium paid up front with adjustments made to premium based on losses. Maximum and minimum premiums determined up front which limit adjustment of premium.
- Cash flow can be positive or negative based on premium adjustments.
- Insurance company provides all services, no unbundling. Likely will need actuary or consultant to provide expected loss reports to negotiate premium, and claims consultant to assist in auditing retro adjustments.
- Flexibility in coverage and forms similar to fully insured plan. Can choose incurred loss or paid loss as basis for retro adjustments.

9. Self Insurance:

- Transfer specific risks above self insured retention (\$250,000 or more) to excess carrier.
- Premium payment minimized by just purchasing excess insurance. Savings used to fund losses. Will require collateral which creates additional cost.
- Most advantageous cash flow option. Some negative cash flow created as insured pays large losses up front and is reimbursed by excess carrier.

- Insured chooses service providers. Can use TPA or in-house, but will need to be approved by excess carrier. Will need to engage actuary to review loss fund adequacy. Insured directly regulated by insurance department, creating costs for reports and audits.
- Very flexible coverage options, limited to negotiations with excess carriers.

10. Captive Insurance:

- Full transfer to captive carrier on paper, but technically self insuring.
- Fixed premiums paid to captive carrier. Dividends may be paid back to parent company.
- Cash flow advantages similar to self insurance.
- Captive chooses service providers similar to self insured plans. Captive will need to engage actuary to review loss fund adequacy and premium rates. Captive directly regulated by insurance department, creating costs for reports and audits.
- Very flexible option for hybrid coverage.

11. Group Programs:

- Level of transfer is up to group. Can be 100% similar to fully insured to very limited transfer for specific exposures.
- Premium mechanics determined by group, subject to insurance regulation. Group decides on deductible options and dividend plans.
- Cash flow advantages similar to self insurance.
- Group chooses service providers similar to self insurance. Group will need to engage actuary to review loss fund adequacy and premium rates. Group directly regulated by insurance department, creating costs for reports and audits.
- Group decides on flexibility of coverage and terms. Potentially the most flexible option.

12. Risk Financing Rules of Thumb:

- Retain as much as you can afford to
- Don't retain more than you can afford to lose
- Don't risk a lot for a little
- Don't treat your financing plan as a substitute for loss control

SECTION 8

Administering a Risk Management Program

1. Introduction

Administration of risk management activities implies that there is a program in place to monitor and review. This Chapter will discuss briefly the components of a Risk Management Program and detail methods for effective monitoring of such a program. Each county should have a Risk Management Team. Depending on the size of your county, the Team might be composed of members of your Safety Committee, or elected officials and department heads. In larger counties each department may have its own Risk Management Team. However risk programs are set up, there are certain concepts that will remain constant.

2. Make Risk a Priority for Everyone

Risk Management Programs are more likely to succeed where there is a policy statement on risk that is endorsed by the governing body or department head. A policy statement would:

- Identify risk as a priority for all employees
- Empower a risk team to identify risk and to develop a plan to address it
- Require participation by all departments

The policy statement needs to be distributed throughout the county organization or department.

The emphasis on risk cannot be left with only the department heads and supervisors. It must be communicated to employees on all levels. One critical tool in this process is the Risk Awareness Program (RAP). RAP is designed to emphasize risk with all employees and provides a convenient means to communicate about risk related problems and concerns.

Where departments are headed by elected officials, having buy-in is particularly crucial. It is important to spend the time necessary to convince each elected office that they ought to be concerned about the impact of risk.

3. Designate a Team Leader

One person should be given the primary task of overseeing the program. Usually, but not always, this will be the county Risk Manager. Depending on the size of the county, Risk Management could be a full time job. For most of our counties, Risk Management will be just one responsibility out of many. The team leader should have good organizational skills, good communication skills as well as an interest in risk.

The Risk Team Leader:

- a. Determines the scope and goals of the program in concert with the elected authorities
- b. Develops an analytical framework for the program
- c. Recruits members to the risk team
- d. Coordinates the team's activities in creating, implementing and monitoring the action plan.

The Team Leader is responsible for obtaining authority for certain activities, and recommendations. The Team Leader also reports on activities and progress to the elected officials.

4. Define Scope and Goals for the Risk Team

The Team Leader establishes the scope and goals of the Team's initial activities. Of course this isn't done in a vacuum and it will require communication with elected officials, department heads, and your insurer. What the Team will do depends in large measure on what scope the governing body has given it. The goals the Team has are the expected results. These include:

- a. Creation of a Risk Action Plan
- b. Implementation of the Plan
- c. Reaching a certain level of reduced loss

As the Team Leader and the Risk Team go through this process, please consider that UCIP personnel stand ready to give you assistance and advice in helping you develop and implement your program.

5. Establish an Analytical Framework

It is essential to establish a framework for analysis of risk that can be used to help make decisions. As discussed in Chapter 4, risk can be analyzed in a number of ways in order to measure its impact on an organization. Tools for assisting in risk analysis are included in Section 4.

6. Recruit Members

One of the most important parts of setting up a Risk Management Program is the selection of Team members. Ideally, a county-wide risk management team would have a representative from each department. However, if a Team is too large, it may become unwieldy. It may therefore be advisable in some instances to have a small core team and only engage members from some departments as you deal specifically with risks in those areas.

It is not essential that Team members be risk specialists or even that they have familiarity with a department's loss history. The most important attributes are an understanding of a department's operational details and the vision to understand all risks that can impair or cripple the entity's ability to provide services.

Invitations to be a part of the Risk Management Team should include:

- a description of the Team's duties
- the expected time commitment and frequency of meetings
- a description of term limits if any
- a copy of the risk policy statement

7. Identify and Evaluate Risk

The Risk Team's first tasks are to:

- Identify the range of risks to which the county is exposed
- Estimate the anticipated frequency and severity of those risks
- Begin to identify strategies to deal with those risks

These activities may take considerable time and effort as team members look at loss histories, evaluate service being provided, and consider potential hazards. Information obtained through the RAP process can be helpful here. Once the data are collected, the Team meets to come to a consensus on the potential frequency and severity projections associated with the identified risks. Where there are controversial risks identified, this process may take more than one meeting in order to get more information.

8. Plot a Risk Map

The data from the Team's research on frequency and severity should be placed on the Risk Matrix to form a scatter-gram of the potential risks. Adjust the quadrants to reflect the county's risk tolerance levels and appetite for risk.

9. Create an Action Plan

Using the risk matrix as a basis, prepare an action plan. No category of risk should be ignored but typically, high frequency, high severity risks are the highest priority. Essential aspects of planning would include:

- a. Assign priority to the risks evaluated
- b. Evaluate possible risk management strategies
 - Can the risk be avoided, financed, transferred and/or controlled?
- c. Get input from departments on loss control strategies to reduce or control the loss

- What strategies are practically feasible?
 - What strategies are financially feasible?
- d. Calculate costs of implementation
 - e. Complete recommendations
 - f. Circulate the Action Plan to the Team for consensus
 - g. Submit the Action Plan to the governing body or appropriate department

10. Select Motivational Strategies

Any plan or program can be enhanced by designing strategies to boost participation and awareness. Efforts should be made to provide positive incentives. These might include:

- Competition between departments
- Recognition Ceremonies
- Monetary rewards
- Employee Parties

11. Implement the Plan

Implementation of the plan is an ongoing process. Typically, the recommended strategies will need to be approved by and elected official or department head. Strategies that require additional funding may have to be deferred until they can be included in the budgeting process.

Communication of Plan elements is a critical aspect of the implementation. The RAP communication tool can be effectively used in this process particularly, if the strategies involved relate to changes in policies and procedures.

12. Monitor the Plan

Monitoring has two objectives:

- a. Control performance—that is to confirm that the chosen techniques are being implemented and are achieving the desired results, and
- b. Adapt the chosen techniques to change

Controlling Performance

Every activity of the county needs to be controlled to ensure it is being performed correctly or optimally. This requires that the county set standards of acceptable

performance, measure the actual performance and make adjustments by correcting behavior or modifying the standard.

a. Standards of Acceptable Performance

Any Risk Management Program implemented by a county will have elements of both activity based and results based standards by which it will be judged. Obviously, everyone wants to reduce loss. And that should be the ultimate goal of any Risk Management Plan. But the program itself will be made up of a variety of strategies designed to limit, control, or avoid loss.

b. Risk control standards include:

- Legal requirements
- Industry practices
- Organizational policies and procedures
- Other standards implemented by management

c. The following is a process for setting standards:

- Select one or more variables for which the results or performance will be developed
- Establish target values that constitute an acceptable level of performance and establish control points above or below those values that require managerial intervention
- Confirm that the standards meet the principles of sound performance

d. Ideally, any standards introduced by the Risk Management Team should be based on sound principles. Sound performance standards have common elements. They should be:

- Consistent
- Objective
- Measureable
- Appropriate
- Stable
- Reliable
- Valid
- Flexible
- Cost-effective
- Specific

e. Measuring Performance against Standards

In order to measure performance:

- Performance must be objectively measureable
- Performance must be measured in ways that are understood and accepted by those being evaluated
- Measurements must represent actual performance of the time period to which measurements apply
- Only significant deviations from performance should trigger managerial action

f. Dealing with Performance Issues

When risk control performance is deficient, follow appropriate steps to improve performance:

- Confirm the accuracy of the data
- Identify probable cause of the performance
- Discuss the cause with manager and/or employee involved in order to explain:
 - The extent to which the issue is within each person's control
 - The change in operating procedures that could improve performance
 - Other causes of below-standard performance
- Implement corrective actions
- Continue to monitor and restore effective performance

g. Adjusting Standards

If the standard is determined to be unreasonable review the criteria and go through the standard setting process again.

Adapting to Change

Many risk control strategies may be effective when initially introduced but may lose effectiveness over time. It frequently happens that industry standards or legal requirements evolve and change. It is therefore necessary to for the Risk Team to monitor and be aware of changes that might affect the effectiveness of the Program.

a. Changes in Loss Exposures

When a county initiates a new program, adds a facility, or offers new services, new loss exposures will arise. This will necessitate adapting your program to provide new loss control strategies and perhaps to eliminate others.

b. Changes in Legal Requirements

When legal requirements change, the county needs to evaluate its practices to conform to the legal requirements and to determine cost effective means of compliance.

c. Changes in Organizational Resources

Resources for risk control programs may change over time. Developing a list of risk priorities to deal with in connection with those changes is a necessity. Drop or add measures depending on the amount of resources available. Be prepared to demonstrate the cost-effectiveness of various proposals.

d. Changes in Costs and Benefits of Risk Techniques

A cost-benefit analysis of each risk management technique should be done. When cost or benefit of a given program changes, its effectiveness should be reevaluated. Consider:

- Cost of insurance
- New technologies
- New regulation

Ideally, the county should focus on activities which present the highest rate of return to the organization—while still complying with legal and ethical requirements.

Finally

We at UCIP thank you for your service to your county and your community. It is our hope that the materials contained in this handbook have been helpful in introducing the role risk management has to play in your county and how you can apply risk management principles in order to reduce loss. We invite you to offer comments or concerns and help us improve this handbook for future use.

Good Luck in your Risk Management efforts and please call on us for your risk management needs.